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ABSTRACT

A discussion of methods for internationalizing finance curricula outlines two approaches and suggests a plan for internationalizing the curricula in each of three areas. The two proposed approaches result in either a minimum level of internationalization, which can be accomplished quickly by the instructor, or a substantial level of internationalization, which could include changes in a number of course features. For each of the three curriculum areas in which internationalization is proposed, a course outline is provided and some aspects of course development are discussed. Those areas include corporate finance, financial markets and institutions, and investments. A list of readings and references is appended. (MSE)

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HOW TO INTERNATIONALIZE THE FINANCE CURRICULUM?

by

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HOW TO INTERNATIONALIZE THE FINANCE CURRICULUM?

Virtually every manufacturing and service industry in the United States is involved in some form of international business today. So many of the U.S. business firms are increasingly involved in the world economy. This has created a need for qualified managers, who should be able to assume international business responsibilities. Furthermore, there are increasing numbers of foreign multinationals which are now operating within the United States. Recent statistics suggest that there are more private direct investments coming into the United States from overseas than United States multinationals going abroad. According to the United States Department of Commerce estimates, the value of foreign direct investment in the United States was $159.6 billion in 1984. The 1984 investment numbers represent a continuation of the recent strong year-to-year increases in foreign investment in the United States, and the shift in the magnitude of new foreign direct investment in the U.S. relative to new U.S. direct investment abroad. It was the fourth consecutive year in which additions to the value of foreign direct investment in the United States exceeded additions to U.S. direct investment abroad.[1] However, it seems ironic that the bulk of U.S. business schools have been so slow in responding to the international needs of the American as well as the foreign multinationals operating in the U.S. business community.

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[1]For further analysis of foreign direct investment in the U.S., see International Letter, Federal Reserve Bank of Chicago, (Jan. 1986) Number 554.

Inertia, "a belief that domestic and international business are the same," and a lack of qualified international business faculty members are some of the explanations cited for such woefully slow progress towards internationalizing the business curriculum. Now, with the American Assembly of Collegiate Schools of Business (AACSB) calling for an international dimension in the business curriculum among its accreditation guidelines, many business schools are preparing to take further steps necessary to internationalize their programs.

Why to Internationalize the Finance Curriculum?

With the breakdown of the post-World War II system of fixed exchange rates in the early seventies, the world economy is now subjected to a new era of fluctuating exchange rates. Since then, International Business Finance has become an increasingly important subject for study and research. The value of most major currencies now fluctuates from moment to moment depending on the demand and supply conditions. In addition, this post-World War II period, international trade and investment have grown much faster (7% per annum, real terms) than the world economy (5% per annum) and, therefore, have become much more significant. It is estimated that currently more than a quarter of the world's GNP moves across national borders. As another example of the increased importance of international finance, the weekly volume of trading in the foreign exchange markets now far exceeds the annual trading volume of the world's stock exchanges and the gross size of the Eurodollar market now rivals M2, the U.S. domestic money supply!

Methodology: The Process of Internationalizing.

The process of internationalizing the Finance curricula may call for a variety of techniques or routes some of which may render results qualifying from a "minimum" to a "substantial" degree of internationalization. With the flexibility and qualitative interpretation of the AACSB standards, it is extremely difficult to pin point a universal strategy which may apply to all the business schools. Much of it also depends upon who takes the initiative - The Faculty, Department Heads or the Dean. The scope of my investigation is kept limited to the faculty level. I have identified the following strategies which the Finance faculty can use in internationalizing the curriculum:

(A) Minimum Level of Internationalization:

This is what one may call a "quick fix" or a "lip service" approach to the process of internationalization. This approach calls for the following things which an instructor can do in his or her classroom.

(i) Invite a Guest Lecturer from the Industry:

This plan calls for inviting a guest lecturer in the classroom who may have some exposure to the international area, e.g. the export manager of a firm, vice president in charge of international operations or a foreign exchange specialist working in a bank and so on. Such a lecture may help increase awareness among the students of the international aspects with the stipulation that they will further explore the international dimensions on their own.

(ii) Invite a Colleague as a Guest Lecture:

Another possibility under this strategy is to invite a colleague who specializes in the international area as a guest lecturer and have him or her address the students on one or more topics. Of course, the access to such lectures on an on-going basis depends upon the availability of qualified faculty in the department. Occasionally, one can also invite guest faculty from nearby universities.

(B) Substantial Level of Internationalization:

This approach may include just about every possible thing which can be done to internationalize the Finance curriculum. Some of the suggested possibilities are as follows:

(1) Courses in International Finance Area:

All the Finance majors should be required to take at least one or more courses in the International Finance Area. These courses may include Multinational Business Finance, International Banking, International Economics, and/or International Trade Theories and Practices.

(2) Internationalizing the Existing Curricula:

The Finance curricula in Business Schools is normally comprised of courses in the areas of Corporate Finance, Financial Institutions and Investments. The traditional material available in each area fails to adequately cover the international dimensions.

The purpose of this paper is to identify strategies and methodologies to internationalize the existing Finance

curriculum. Such an approach will provide students with a broader knowledge of firms operating in the "real world," not limited to just one country. Supplemental material consisting of bibliographies, case studies, journal articles and excerpts from various books and other sources will have to be identified, collected and kept as resource material. The following section provides a scheme to internationalize the Finance curricula for each area of Corporate Finance, Financial Institutions and Investments.

(A) Corporate Finance:

The Introductory Principles of Finance Course

This course provides a common body of knowledge in the area of Finance to undergraduate and graduate students. The following outline somewhat reflects the contents of a common introductory course in Finance without internationalization.

TABLE OF CONTENTS: CORPORATE FINANCE COURSE WITHOUT INTERNATIONALIZATION

I. The Financial Environment

- A. The Goal of Finance
- B. Theories of Value
- C. The Legal, Operating, and Tax Environment
- D. Financial Intermediaries and Markets

II. Basic Financial Concepts

- A. The Time Value of Money
- B. Risk, Return and Value
- C. Leverage, Operating, Financial and Total

III. Techniques of Financial Analysis and Planning

- A. The Analysis of Financial Statements
- B. Financial Planning

IV. The Management of Working Capital

A. Cash and Marketable Security Management
B. Accounts Receivable and Inventory Management
C. Sources of Short-Term Financing

V. Fixed-Asset Management and Capital Budgeting

A. Capital Budgeting Techniques: Certainty and Risk

VI. Cost of Capital, Capital Structure, and Dividends

A. The Cost of Capital
B. Capital Structure
C. Dividend Policy

VII. Sources of Long-Term Financing

A. Long Term Debt
B. Preferred and Common Stock
C. Leasing
D. Warrants and Convertibles

VIII. Expansion and Failure

A. Consolidations, Mergers, and Holding Companies
B. Failure, Reorganization, and Liquidation

The problem with the above outline is not its contents or its organization because a general agreement seems to exist among Finance professors about this content. (Of course, the presentation of material has always been the prerogative of the instructor.) The major problem I foresee, is that not enough time exists in a three credit hour course within a semester to cover all the topics as mentioned in the above outline. As it stands now, one may be currently cutting out about 15 to 20 percent of the portions: some portions by general agreement; some because of personal choice and some because of the expertise of the instructor.

The possible solutions to the internationalization of the introductory Finance course may fall into the following categories:

A. A "Zero Sum" Approach:

1. Substitute international contents for the existing contents.
2. Expand the course to two three-credit hour courses in the core requirements by replacing some other course. This would allow enough breathing room to provide a full coverage of the current contents plus an excellent coverage of international contents.

B. Recommended Approach:

1. Expand the introductory Finance course to a four-credit hour course. This would accomplish the task specified in #2 at a respectable level.
2. If none of the above approaches are feasible, a faculty member should be designated for this task on a full-time basis who will rotate in different Finance classes to do the job. Internationalization is an additional load clearly equivalent to an F.T.E.F. This will be an interim measure in the direction of internationalization until other options become feasible.

A Proposed Outline for Introductory Corporate Finance Course After Internationalization

The following is a partial list of topics which should be incorporated in the Introductory Finance Course in order to internationalize its contents:

I. The Financial Environment

A. Multinational Finance: An Overview
   a. Foreign Ownership
   b. Foreign Exchange Risks
   c. Multinational Accounting
   d. Multinational Capital Markets

B. Multinational Finance: Legal and Tax Environment
   a. Legal Forms of Business
   b. International Taxes

C. International Financial Markets:
   a. Growth of Euro Markets
   b. The Major Participants

II. Basic Financial Concepts

A. International Risks
   a. Foreign Exchange Risks
   b. Political Risks

III. Techniques of Financial Analysis and Planning

A. International Consolidation
   a. Consolidation
   b. Translation of Individual Accounts
   c. International Profits

IV. The Management of Working Capital

A. International Working Capital Management
   a. International Cash Management
   b. International Accounts Receivable Management
   c. International Inventory Management
   d. International Short-Term Financing

V. Fixed Assets Management and Capital Budgeting

A. International Capital Budgeting and Cash Flows

VI. Cost of Capital and Capital Structure

A. International Capital Structure

VII. Sources of Long-Term Financing

A. International Long-Term Debt
   a. International Bonds
   b. International Financial Institutions
   c. Interest Rates in Euro Dollar and Asian Dollar Markets

B. International Equity Capital
   a. Multinational Issues
   b. Underwriting
   c. Competition

C. International Leasing Operations
   a. Expropriation
   b. Devaluation
   c. Tax Aspects

VIII. Expansion and Failure

A. International Mergers and Acquisitions
   a. Valuation
   b. The Cunitz Model
   c. The Selection Process
   d. Financial Statement Problems
   e. Potential Impact on Capital Structure

Course: <u>The Advance Course in Financial Management</u>

The advance level course in the area of corporate finance is sometimes taught by faculty as exclusive case course where students are required to apply their knowledge of finance theory to problem solving situations.

The solution to internationalize such a course seems to pose least difficulty. Given a set of cases from a textbook, the instructor should choose at least 20 percent of such cases from international area. For example, the following international cases are available in the most widely used textbook for the case course by J. Keith Butters et. al., <u>Case Problems in Finance</u>:

(1) Pechiney Ugine Kuhlmann - Cebal

(2) Carrefour, S. A.

(3) Verenigde Machinefabrieken Stork N. V.

In addition to the above list of "Harvard style" cases, a number of shorter, single-issue cases are also available. Furthermore, simulation games, particularly emphasizing foreign exchange risk, have been developed by some of the authors from INSEAD, Fontainebleau, France.

(B) Financial Markets and Institutions:

Courses: Financial Markets
Commercial Banking
Business Financial Markets

These are upper division elective courses primarily concentrating in the area of Financial Markets, Banking and Institutions. Approximately 20 to 25 percent of these courses should be internationalized by assigning additional reading materials. Topics covered should include foreign exchange rates; parity condition explaining the behavior of exchange rates; the economics of comparative advantage and world trade; effects of free trade and protectionism; the characteristics of international financial markets including institutions, participants, instruments and regulations or the lack of regulations; the impact of international financial environment on domestic financial environment, and vice versa. As a part of course requirement, student may do a research paper on an international topic.

In the Institutional area, one can explore International Banking by examining the functions of multinational American banks operating abroad, Edge Act Corporations, eurodollars and domestically based inter-

national banking facilities. A number of good cases in the field of International Banking are now available which can be used to supplement the domestic contents.

(C) Investments:

Courses: Investments
Portfolio Management
Securities Analysis

These courses are offered to students in the area of investments. The world economy is now becoming closer than ever before. An investor in the United States may wish to participate in the growth opportunities available in other countries. How one can go about investing in Japanese or Korean companies without having to go over there? What are the implications of such investments in terms of risks and returns to an investor? How can a United States corporation take advantage of lower cost of borrowings by floating bonds in the Euro dollar market or the Asian dollar market? What different mutual funds are available which specialize in investing overseas stock and bond markets? These are some of the international issues which are relevant to a business student taking investment courses.

One of the main areas investigated in the Investment literature deals with the concept of risk. The basic concepts concerning risk and uncertainty remain unchanged when entering into the international arena. But this does not mean that the nature of the risks or uncertainties are the same. It is far from it. International business and investments face additional risks such as currency rate

fluctuations, differential inflation rates in different countries, exchange controls, import and tariff controls, varying tax rates, and risks of expropriation.

Given the degree of added risks in the international arena, it goes without saying that higher-risk investments should yield higher returns. It is often suggested that foreign investments should promise higher returns compared to their domestic counterparts before one can invest in such ventures. In the international arena, therefore, one needs to examine the total risk picture - not just the risk of a single project or the risks in a single country.

Recent studies now indicate that an investor can improve risk-return trade offs by holding an internationally diversified portfolio of securities as compared with a domestically diversified portfolio. However, investors typically have only limited knowledge about foreign securities due to a number of reasons such as lack of information, inadequate disclosure requirements, unfamiliarity with foreign investment institutional practices and security markets. Investors also lack confidence in their ability to judge foreign exchange and political risks.

It has been suggested that the shares of multinational corporations, whose activities are already internationally diversified, can serve as a surrogate investment vehicles for an investor desiring to hold an optimally diversified international portfolio. Furthermore, many multinationals

are diversified both by industry and by country. An additional benefit they provide is diversification of foreign-exchange and political risks. There is certainly going to be some reduction in the overall and systematic risk because project returns in different countries in different continents are not likely to be perfectly correlated with each other even if all the projects are in the same industry.

Shares of a number of mutual funds which invest into securities of a particular foreign country are now being traded on the U.S. stock exchanges. For example, shares of both the Japan Fund, Inc., the Korea Fund, Inc., the Mexico Fund Inc., the Italy Fund, Inc., etc. are traded on the New York Stock Exchange. These funds invest in the securities of companies in the respective countries, and pass on the dividends to the investors in U.S. dollars. Following is a partial list of mutual funds available in the U.S. which specialize in investing into foreign securities:

(1) Alliance International Fund
(2) Canadian Fund
(3) Dean Witter World Wide Investment Fund
(4) G.T. Pacific Fund
(5) International Investors
(6) Kemper International
(7) Keystone International Fund
(8) Mass. Fin. International Bond TR-BD Portfolio
(9) Merrill Lynch Pacific Fund
(10) Permanent Portfolio Fund
(11) T. Rowe Price International Fund
(12) Putnam International Equities Fund
(13) Scudder International Fund
(14) Templeton Foreign Fund
(15) Templeton Global I
(16) Templeton Global II
(17) Templeton World Fund
(18) Transatlantic Fund

(19) Trustees Commingled International
(20) United International Growth Fund
(21) Fidelity Overseas Fund

(3) Faculty/Student Exchange Programs With Overseas Universities:

A third dimension in internationalizing the program is to establish faculty/student exchange programs with one or more overseas schools of business. A number of universities have made significant progress in this direction and rewards seem to be mutually beneficial.

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